

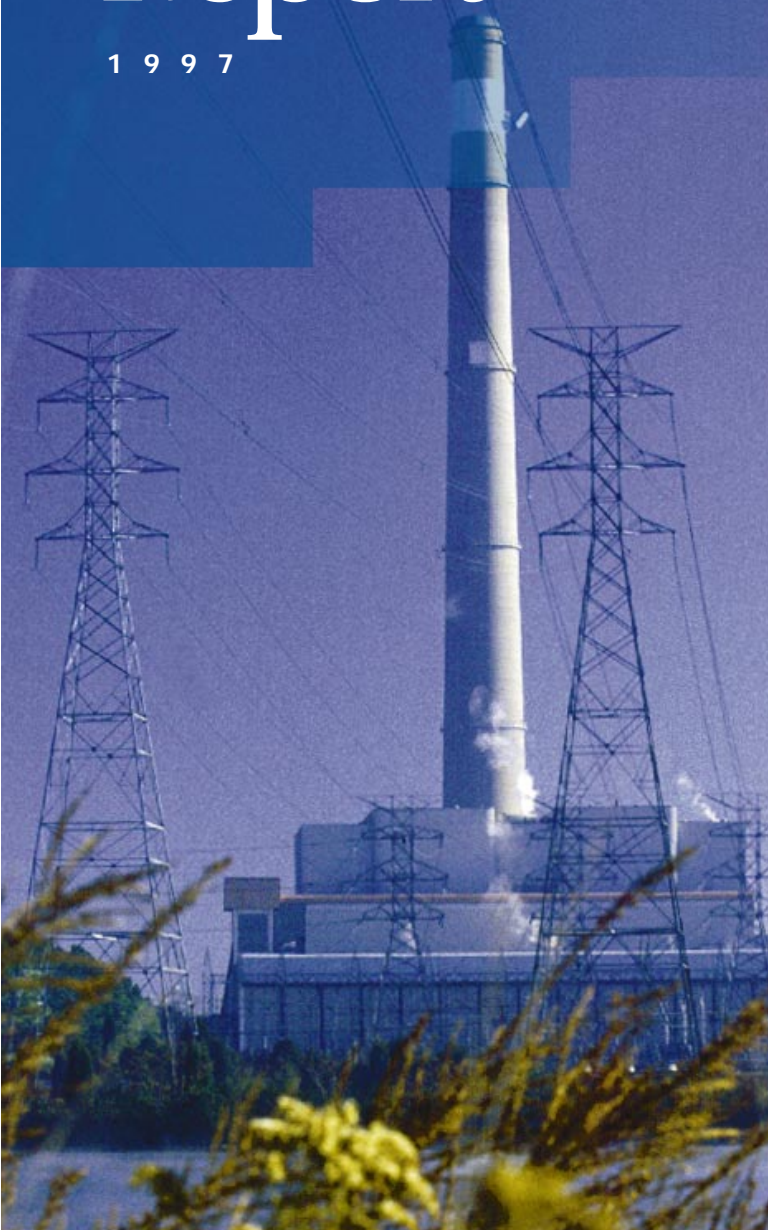
T E N N E S S E E   V A L L E Y   A U T H O R I T Y

P O W E R   P R O G R A M



# Second Quarter Report

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During the second quarter, TVA continued its record of operational excellence.

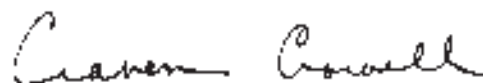
- On January 17, TVA met an all-time record power demand of more than 26,500 megawatts, generating power from all of TVA's 59 fossil, five nuclear, and 113 hydro units simultaneously for the first time ever.
- On March 13, Browns Ferry nuclear plant employees set a new world record for refueling a General Electric boiling water reactor, completing the refueling of Unit 3 in only 19 days and 39 minutes.
- Also in March, TVA's Sequoyah and Browns Ferry nuclear plants were ranked by *Nucleonics Week* among the 20 best in the country's 110 nuclear plants in two key areas of power production performance.

Unseasonably warm weather continued throughout the Southeastern U.S. during the second quarter of 1997, causing reduced revenues for TVA and its neighboring utilities. This was in sharp contrast to the winter of 1996, which was unseasonably cold. Operating expenses were higher for both the quarter and six months, as we expected they would be, after recognizing the full charge for the depreciation associated with the two nuclear units introduced into service last year. TVA incurred a net loss of \$6 million for the three months ending March 31, 1997, compared with net income of \$119 million for the same period the prior year. For the six months ending on March 31, 1997, TVA incurred a net loss of \$70 million versus a net income of \$150 million. To offset the effect of this year's unexpectedly mild weather, TVA has initiated a series of cost-cutting steps and expense deferrals for the remainder of this fiscal year.

On a more positive note, cash flow is considerably stronger for both the quarter and six months. We expected this, given the introduction of two additional nuclear units into operation and the associated reduced capital spending requirements which will allow TVA to avoid an increase in debt for the first time in 35 years.

We are continuing to prepare for a competitive future. TVA's power plants and transmission system are operating more efficiently than they have in decades. TVA, in partnership with its power distributors, offers one of the lowest residential prices in the nation at an average of 5.9 cents per kilowatt-hour. And we are examining options that will allow us to convert more of our fixed costs to variable costs to enable TVA to respond quickly to the volatility in both price and volume that will occur in a restructured electric utility industry.

TVA is a valuable national asset that provides an excellent return to customers, taxpayers, and the federal government. We will maintain our focus on operational excellence and financial flexibility as we plan for a restructured utility industry.



Chairman

#### Financial Highlights (millions)

Six Months Ended March 31	1997	1996
Operating revenues	\$ 2,714	\$ 2,814
Operating expenses	(1,781)	(1,689)
Operating income	933	1,125
Other income (expense), net	1	(2)
Interest expense	1,004	973
<b>Net (loss) income</b>	<b>\$ (70)</b>	<b>\$ 150</b>

#### Sales of Electricity (millions - kWh)

Six Months Ended March 31	1997	1996
Municipalities and cooperatives	55,700	57,948
Industries directly served	8,359	8,121
Federal agencies	4,365	3,164
<b>Total sales of electricity</b>	<b>68,424</b>	<b>69,233</b>

## RESULTS OF OPERATIONS

TVA incurred a net loss of \$6 million for the three months ended March 31, 1997, as compared with net income of \$119 million for the same period of 1996. For the six months ended March 31, 1997, TVA incurred a net loss of \$70 million versus net income of \$150 million for the same period last year.

### Operating Revenues

Operating revenues of \$1,382 million for the second quarter of 1997 were \$100 million lower than the same period of 1996. Sales of electric energy declined approximately 5 percent from 36.2 billion kilowatt-hours for the three months ended March 31, 1996, to 34.5 billion kilowatt-hours for the same period this year. Fiscal year-to-date operating revenues also declined \$100 million from \$2,814 million in 1996 to \$2,714 million in 1997, and kilowatt-hour sales declined approximately 1 percent from 69.2 billion kilowatt-hours in 1996 to 68.4 billion kilowatt-hours in 1997. These reductions in revenues and kilowatt-hour sales are directly attributable to the warmer than normal winter experienced during the first six months of fiscal year 1997, as contrasted to a colder than normal winter in fiscal year 1996, which has an adverse impact on both the volume and price of kilowatt-hour sales.

### Operating Expenses

Operating expenses for the three months ended March 31, 1997 were essentially unchanged from the prior year. Operating expenses for the six months ended March 31, 1997 increased \$92 million from \$1,689 million in 1996 to \$1,781 million in 1997. This increase in operating expenses resulted primarily from increased depreciation costs associated with the operation of the Watts Bar and Browns Ferry 3 nuclear units.

### Interest Expense

Net interest expense increased \$13 million and \$31 million for the three months and six months ended March 31, 1997 as compared to the same periods of 1996. These increases resulted primarily from reductions in capitalized interest of \$10 million and \$25 million for the three month and six month periods, respectively.

## FINANCIAL POSITION

Net cash provided by operations of \$418 million for the three months ended March 31, 1997 was \$76 million lower than the same period of 1996. However, cash provided by operations for the six months ended March 31, 1997 improved \$42 million from \$500 million in 1996 to \$542 million in 1997.

Cash used for construction activities declined \$126 million (44%) and \$271 million (45%) for the three months and six months ended March 31, 1997 as compared to the same periods of 1996. These reductions resulted from the decline of TVA's construction activities with the completion of Watts Bar and Browns Ferry 3.

TVA's total outstanding debt declined \$254 million and \$398 million for the three months and six months ended March 31, 1997, respectively. This debt reduction was accomplished in part through the reduction of cash and cash equivalents.

## Balance Sheets *(Unaudited)*

ASSETS	March 31 1997	September 30 1996
	(MILLIONS)	
<b>Current assets</b>		
Cash and cash equivalents	\$ 22	\$ 238
Accounts receivable	571	680
Inventories and other, at average cost		
Fuel	100	110
Other	289	278
Total current assets	<b>982</b>	1,306
<b>Property, plant, and equipment</b>		
Completed plant	28,209	27,955
Less accumulated depreciation	(6,941)	(6,553)
Net completed plant	21,268	21,402
Construction in progress	756	744
Deferred nuclear generating units	6,301	6,293
Nuclear fuel and capital lease assets	1,060	1,082
Total property, plant, and equipment	<b>29,385</b>	29,521
<b>Investment funds</b>	<b>409</b>	440
<b>Deferred charges and other assets</b>		
Loans and other long-term receivables	315	319
Debt issue and reacquisition costs	1,126	1,162
Other deferred charges	1,239	1,281
Total deferred charges and other assets	<b>2,680</b>	2,762
<b>Total assets</b>	<b>\$33,456</b>	\$ 34,029
<b>LIABILITIES AND PROPRIETARY CAPITAL</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 351	\$ 392
Accrued liabilities	124	187
Accrued interest	513	498
Discount notes	3,229	1,774
Current maturities of long-term debt	250	2,250
Total current liabilities	<b>4,467</b>	5,101
<b>Other liabilities</b>	<b>1,670</b>	1,580
<b>Long-term debt</b>		
Public bonds—senior	19,554	19,403
Federal Financing Bank—senior	3,200	3,200
Public bonds—subordinated	1,100	1,100
Unamortized discount and other	(462)	(383)
Total long-term debt	<b>23,392</b>	23,320
<b>Proprietary capital</b>		
Appropriation investment	598	608
Retained earnings reinvested in power program	3,329	3,420
Total proprietary capital	<b>3,927</b>	4,028
<b>Total liabilities and     proprietary capital</b>	<b>\$33,456</b>	\$ 34,029

## Statements of Income *(Unaudited)*

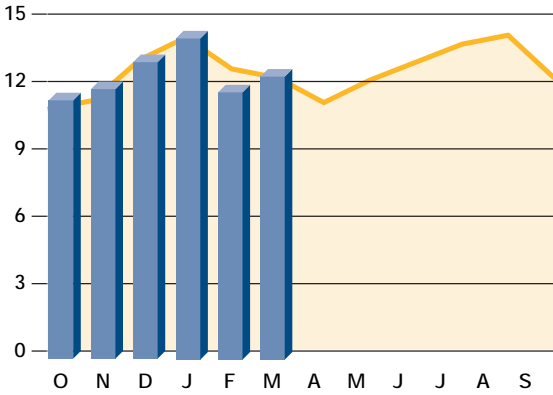
	Three Months Ended March 31		Six Months Ended March 31	
	1997	1996	1997	1996
	(MILLIONS)		(MILLIONS)	
<b>Operating revenues</b>				
Sales of electricity				
Municipalities and cooperatives	\$ 1,204	\$ 1,299	\$ 2,350	\$ 2,467
Industries directly served	110	113	227	224
Federal agencies	46	45	97	80
Other	<u>22</u>	<u>25</u>	<u>40</u>	<u>43</u>
Total operating revenues	<b>1,382</b>	1,482	<b>2,714</b>	2,814
<b>Operating expenses</b>				
Fuel and purchased power, net	273	317	555	630
Operating and maintenance	301	292	603	548
Depreciation and amortization	244	205	488	384
Tax-equivalents	<u>68</u>	<u>64</u>	<u>135</u>	<u>127</u>
Total operating expenses	<b>886</b>	878	<b>1,781</b>	1,689
<b>Operating income</b>	<b>496</b>	604	<b>933</b>	1,125
Other income (expense), net	<u>(1)</u>	<u>3</u>	<u>1</u>	<u>(2)</u>
Income before interest charges	495	607	934	1,123
<b>Interest expense</b>				
Interest on debt	498	490	997	980
Amortization of debt discount, issue, and reacquisition costs, net	25	30	49	60
Allowance for funds used during construction	<u>(22)</u>	<u>(32)</u>	<u>(42)</u>	<u>(67)</u>
Net interest expense	<b>501</b>	488	<b>1,004</b>	973
<b>Net (loss) income</b>	<b>\$ (6)</b>	\$ 119	<b>\$ (70)</b>	\$ 150

## Statements of Cash Flows *(Unaudited)*

<b>Cash flows from operating activities</b>				
Net (loss) income	\$ (6)	\$ 119	\$ (70)	\$ 150
Items not requiring cash	300	253	601	461
Other changes, net	<u>124</u>	<u>122</u>	<u>11</u>	<u>(111)</u>
Net cash provided by operations	<b>418</b>	494	<b>542</b>	500
<b>Cash flows from investing activities</b>				
Construction expenditures	(163)	(289)	(331)	(602)
Allowance for funds used during construction	22	32	42	67
Other, net	<u>(6)</u>	<u>(59)</u>	<u>(41)</u>	<u>(131)</u>
Net cash used in investing activities	<b>(147)</b>	(316)	<b>(330)</b>	(666)
<b>Cash flows from financing activities</b>				
Borrowings, net	(254)	(157)	(398)	155
Other	<u>(15)</u>	<u>(16)</u>	<u>(30)</u>	<u>(32)</u>
Net cash (used in) provided by financing activities	<b>(269)</b>	(173)	<b>(428)</b>	123
<b>Net change in cash and cash equivalents</b>	<b>\$ 2</b>	\$ 5	<b>\$ (216)</b>	\$ (43)

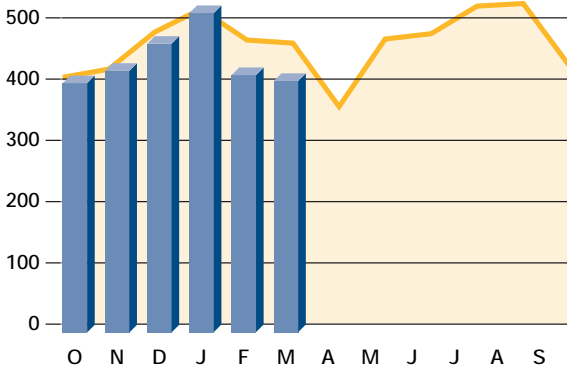
# Total TVA Generation

billions of kwh



# Total Electric Revenue

millions of dollars



# Average Revenue

cents per kwh

